

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of LeRoy</b>	County <b>Osceola</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>6/14/06</b>	Date Accountant Report Submitted to State: <b>June 22, 2006</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter and Bishop, P.C.</b>			
Street Address <b>134 West Harris Street</b>		City <b>Cadillac</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49601</b>	Date <b>6/22/06</b>

**VILLAGE OF LEROY, MICHIGAN**

**DECEMBER 31, 2005**

VILLAGE OF LEROY, MICHIGAN

DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-viii
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	6
Notes to Financial Statements	7-16
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - Major Governmental Funds	17
<b>Other Information</b>	
Statement of 2005 Tax Roll	18
Letter of Comments and Recommendations	19-21
Letter of Reportable Conditions	22-23

# *Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

June 14, 2006

## INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of LeRoy, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of LeRoy, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of LeRoy, Michigan as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Village has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of January 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the

methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of LeRoy, Michigan's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

VILLAGE OF LEROY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**Management's Discussion and Analysis**

The management of the Village of LeRoy, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the year ended December 31, 2005, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

**Government-Wide**

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$347,340 (shown as *Net Assets*), representing an increase of \$40,624 over the previous fiscal year.

**Fund Level Financial Highlights**

- ❖ As of December 31, 2005, the governmental funds of the Village of LeRoy reported combined ending fund balances of \$216,924, of which \$74,064 is unreserved and undesignated.

**Overview of the Financial Statements**

The Village of LeRoy's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Page 1) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

## VILLAGE OF LEROY, MICHIGAN

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FOR THE YEAR ENDED DECEMBER 31, 2005

The *Statement of Activities* (Page 2) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public works, other functions and debt service.

#### **Focus on Funds**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund, and Local Street Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of LeRoy uses fund accounting to ensure compliance with finance-related legal requirements.

***Governmental Funds*** Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the Special Revenue funds.

#### **Notes to the Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 7 of this report.

VILLAGE OF LEROY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$347,340 at December 31, 2005, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

*Village of LeRoy*  
*Net Assets*  
*As of December 31, 2005*

	<b><u>Governmental Activities</u></b>
Current Assets	\$ 222,744
Capital Assets, Net of Accumulated Depreciation	<u>127,899</u>
<b>Total Assets</b>	<b><u>350,643</u></b>
Current Liabilities	<u>3,303</u>
Net Assets	
Invested in capital assets	127,899
Unrestricted	<u>219,441</u>
<b>Total Net Assets</b>	<b><u>\$ 347,340</u></b>

The most significant portion of the Village's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Village has \$219,441 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The total net assets of the Village increased \$40,624 in this year, which is a good indicator that the Village experienced positive financial growth during the year. As a result, the Village ended the year in better condition than when the year started.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.



VILLAGE OF LEROY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

*Village of LeRoy*  
*Change in Net Assets*  
*For the Year Ended December 31, 2005*

	<u><i>Governmental Activities</i></u>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 4,374
Operating Grants and Contributions	53,713
<b>General Revenues</b>	
Taxes	21,626
State Grants	26,458
Interest Earnings	2,775
Other	4,659
<b>Total Revenue</b>	<u>113,605</u>
<b><u>Expenses</u></b>	
Legislative	11,650
General Government	25,006
Community and Economic Development	491
Public Works	26,058
Recreation and Culture	2,854
Other Functions	6,922
<b>Total Expenses</b>	<u>72,981</u>
Increase (Decrease) in Net Assets	40,624
Beginning Net Assets	306,716
Ending Net Assets	<u>\$ 347,340</u>

**Governmental Activities**

The most significant portion of the revenue for all governmental activities of the Village of LeRoy comes from Operating Grants and Contributions.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Village's governmental activities expenses are dominated by the Public Works and General Government expenses that represent 35.71% and 34.26% of total expenses respectively.

VILLAGE OF LEROY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**Financial Analysis of the Government's Funds**

**Governmental Activities** At the completion of the Village's year ended December 31, 2005, its governmental funds reported fund balances of \$216,924.

**General Fund** – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this year by \$8,164, bringing the balance to \$87,008.

**Major Street Fund** – The fund balance of the Major Street Fund ended the year at \$40,340. This was a decrease of \$73,056 from the previous year due to a large road improvement project completed during the year.

**Local Street Fund** – The fund balance of this fund is at \$89,576, a decrease of \$5,151, during the year. The Local Street Fund completed a small road improvement project during the year.

**Capital Asset and Debt Administration**

**Capital Assets.** The Village's investment in capital assets for the governmental activities as of December 31, 2005 amounted to \$127,899 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

**Village of LeRoy**  
**Capital Assets as of December 31, 2005**

	<b><u>Governmental Activities</u></b>
Land	\$ 5,000
Equipment	57,174
Streets	123,774
<b>Subtotal</b>	<b>185,948</b>
Accumulated Depreciation	58,049
<b>Net Capital Assets</b>	<b><u><u>\$ 127,899</u></u></b>

Major capital asset events during 2005 included the following:

- Road improvements to a major street in the amount of \$97,209.
- Road improvements to a local street in the amount of \$13,500.

**Long-Term Debt.** As of December 31, 2005, the Village had no debt outstanding.

VILLAGE OF LEROY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Village's budgets for the 2006 year.

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of LeRoy, 103 Main Street, P.O. Box 58, LeRoy, Michigan 49655.

VILLAGE OF LEROY, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 197,308
Receivables	
Taxes	2,517
Due from Other Governments	14,876
Prepaid Expenditures	8,043
	<hr/>
Total Current Assets	\$ 222,744
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	5,000
Equipment	57,174
Infrastructure	123,774
	<hr/>
	\$ 185,948
Less Accumulated Depreciation	58,049
Net Capital Assets	\$ 127,899
	<hr/>
TOTAL ASSETS	\$ 350,643
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 1,492
Payroll Withholdings Payable	1,811
	<hr/>
Total Current Liabilities	3,303
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	127,899
Unrestricted	219,441
	<hr/>
TOTAL NET ASSETS	347,340
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 350,643
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF LEROY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 11,650	\$ 0	\$ 0	\$ 0	\$ (11,650)
General Government	25,006	0	1,850	0	(23,156)
Community and Economic Development	491	200	0	0	(291)
Public Works	26,058	4,174	51,863	0	29,979
Recreation and Culture	2,854	0	0	0	(2,854)
Other Functions	6,922	0	0	0	(6,922)
Total Governmental Activities	<u>\$ 72,981</u>	<u>\$ 4,374</u>	<u>\$ 53,713</u>	<u>\$ 0</u>	<u>(14,894)</u>
<u>GENERAL REVENUES</u>					
Taxes					21,626
State Grants					26,458
Interest Earnings					2,775
Other					4,659
Total General Revenues					<u>55,518</u>
Change in Net Assets					40,624
NET ASSETS - Beginning of Year					<u>306,716</u>
NET ASSETS - End of Year					<u>\$ 347,340</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
DECEMBER 31, 2005

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 73,952	\$ 32,372	\$ 90,984	\$ 197,308
Receivables				
Taxes	2,517	0	0	2,517
Prepaid Expenditures	8,043	0	0	8,043
Due from Other Funds	3,094	2,463	0	5,557
Due from Other Governments	7,685	5,505	1,686	14,876
TOTAL ASSETS	<u>\$ 95,291</u>	<u>\$ 40,340</u>	<u>\$ 92,670</u>	<u>\$ 228,301</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 1,492	\$ 0	\$ 0	\$ 1,492
Payroll Withholdings Payable	1,811	0	0	1,811
Deferred Revenue	2,517	0	0	2,517
Due to Other Funds	2,463	0	3,094	5,557
Total Liabilities	<u>8,283</u>	<u>0</u>	<u>3,094</u>	<u>11,377</u>
<u>FUND BALANCE</u>				
Reserved				
Prepaid Expenditures	8,043	0	0	8,043
Telecommunications Right-Of-Way	4,901	0	0	4,901
Unreserved:				
Designated for:				
Street Improvements	0	40,340	89,576	129,916
Undesignated	74,064	0	0	74,064
Total Fund Balance	<u>87,008</u>	<u>40,340</u>	<u>89,576</u>	<u>216,924</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 95,291</u>	<u>\$ 40,340</u>	<u>\$ 92,670</u>	<u>\$ 228,301</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

Total Fund Balances for Governmental Funds	\$	216,924
--	----	---------

Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	5,000		
Equipment	57,174		
Infrastructure	123,774		
Accumulated Depreciation	<u>(58,049)</u>		127,899

Other long-term assets are not available to pay for current period  
expenditures and therefore are not reported in the funds

Personal Property Taxes Receivable		<u>2,517</u>	
------------------------------------	--	--------------	--

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>347,340</u></u>
---------------------------------------	----	-----------------------

The accompanying notes are an integral part of the financial statements.

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 20,902	\$ 0	\$ 0	\$ 20,902
Licenses and Permits	200	0	0	200
State Grants	28,769	38,596	10,956	78,321
Contribution From Local Units	1,850	0	0	1,850
Charges for Services	4,174	0	0	4,174
Interest and Rents	314	1,238	1,223	2,775
Other Revenues	10,440	77	0	10,517
Total Revenues	66,649	39,911	12,179	118,739
<u>EXPENDITURES</u>				
Legislative	11,650	0	0	11,650
General Government	25,006	0	0	25,006
Community and Economic Development	491	0	0	491
Public Works	11,562	112,967	17,330	141,859
Recreation and Culture	2,854	0	0	2,854
Other Functions	6,922	0	0	6,922
Total Expenditures	58,485	112,967	17,330	188,782
Net Change in Fund Balance	8,164	(73,056)	(5,151)	(70,043)
<u>FUND BALANCES</u> - Beginning of Year	78,844	113,396	94,727	286,967
<u>FUND BALANCES</u> - End of Year	\$ 87,008	\$ 40,340	\$ 89,576	\$ 216,924

The accompanying notes are an integral part of the financial statements.



VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ (70,043)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	(766)
Capital Outlay	110,709
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in personal property tax revenue deferred using the modified accrual method	<u>724</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 40,624</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Village of LeRoy, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

**B. Government-wide and Fund Financial Statements**

During the year 2004, the Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

VILLAGE OF LEROY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of LeRoy reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Village has authorized the Village Treasurer to invest in bank savings accounts, bank certificates of deposit, securities of the U.S. Government, and repurchase agreements from banks. The State also permits local units of government to invest funds in commercial paper (unsecured notes of businesses and corporations). Such obligations must be rated in one of the three highest classifications by two of the national rating services in order to qualify for local government investment. Other statutory limits are that commercial obligations may not extend for more than 270 days, and not more than one half of the total investments may be invested in commercial paper.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of July 1. Village taxes are levied January 1, become a lien on July 1, and become delinquent after September 15. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

The 2005 taxable valuation of the Village of LeRoy totaled \$4,002,889, on which ad valorem taxes levied consisted of 5.3254 mills for the Village of LeRoy operating purposes.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed when acquired. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Infrastructure	20
Land Improvements	20
Equipment	10-20
Vehicles	10

The Village qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Village will capitalize and depreciate infrastructure beginning January 1, 2004, in accordance with the Township's capitalization policy.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**5. *Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. *Fund Balance***

In the fund financial statements, governmental funds report reserves of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on December 8, 2004.

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund	\$ 57,025	\$	58,485
Local Street Fund	1,156		17,330

These overages were funded by available fund balance and greater-than anticipated revenues.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Village's deposits are owned by the Village's funds. At year-end, the carrying amount of the Village's deposits was \$197,308 and the bank balance was \$294,518. Of the bank balance, \$264,937 was covered by Federal depository insurance and \$29,581 was uninsured and uncollateralized.

*Investment rate risk.* The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

*Foreign currency risk.* The Village is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

*Concentration of credit risk.* The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2005, none of the Village's funds were exposed to custodial credit risk.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Total
Receivables				
Taxes	\$ 2,517	\$ 0	\$ 0	\$ 2,517
Due from Other Governments	7,685	5,505	1,686	14,876
Total	<u>\$ 10,202</u>	<u>\$ 5,505</u>	<u>\$ 1,686</u>	<u>\$ 17,393</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

	Unearned	Unavailable
General Fund Taxes Receivable	<u>\$ 0</u>	<u>\$ 2,517</u>



VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Government activities:</u>				
Capital assets, not being depreciated				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Capital assets, being depreciated				
Equipment	57,174	0	0	57,174
Infrastructure	13,065	110,709	0	123,774
Total capital assets, being depreciated	70,239	110,709	0	180,948
Less accumulated depreciation for:				
Equipment	57,174	0	0	57,174
Infrastructure	109	766	0	875
Total accumulated depreciation	57,283	766	0	58,049
Total capital assets, being depreciated, net	12,956	109,943	0	122,899
Governmental activities capital assets, net	\$ 17,956	\$ 109,943	\$ 0	\$ 127,899

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Public Works	<u>\$ 766</u>
--------------	---------------

Construction Commitments:

The Village had no outstanding construction commitments as of December 31, 2005.

VILLAGE OF LEROY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at December 31, 2005, were:

<u>Fund</u>	<u>RECEIVABLES</u> <u>DUE FROM'S</u>	<u>PAYABLES</u> <u>DUE TO'S</u>
Primary Government Only Due From/To Other Funds:		
General Fund		
Major Streets	\$          0	\$      2,463
Local Streets	3,094	0
Major Streets		
General Fund	2,463	0
Local Streets		
General Fund	0	3,094
Total Primary Government	<u>\$         5,557</u>	<u>\$         5,557</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year, no transfers were made.

**G. Fund Balance Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has designated unreserved portions of certain fund balances/retained earnings in various funds for intended future uses. These designations are detailed in the following schedule:

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

FUND BALANCE/NET ASSETS

Unreserved-Designated	
Special Revenue Funds	
Major Street Fund	
Major Streets	\$ 40,340
Local Street Fund	
Local Streets	<u>89,576</u>
 TOTAL FUND BALANCE DESIGNATIONS	 <u><u>\$129,916</u></u>
 Reserved	
General Fund	
Prepaid Expenditures	\$ 43
Telecommunications Right-of-Way	<u>4,901</u>
 TOTAL FUND BALANCE RESERVES	 <u><u>\$ 4,944</u></u>

**IV. OTHER INFORMATION**

**A. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Village participates in pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Village pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

The Village continues to carry insurance for other risks of loss, including fidelity bonds.

VILLAGE OF LEROY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2005

	<u>GENERAL FUND</u>			<u>MAJOR STREET FUND</u>			<u>LOCAL STREET FUND</u>		
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL</u>	<u>FINAL</u>		<u>ORIGINAL</u>	<u>FINAL</u>	
	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>									
Taxes	\$ 24,500	\$ 24,500	\$ 20,902	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	150	150	200						
State Grants	0	0	28,769	34,000	34,000	38,596	12,000	12,000	10,956
Contributions From Local Units	1,800	1,800	1,850						
Charges for Services	3,320	3,320	4,174						
Interest and Rents	300	300	314	700	700	1,238	250	250	1,223
Other Revenues	4,200	4,200	10,440	0	0	77	0	0	0
Total Revenues	34,270	34,270	66,649	34,700	34,700	39,911	12,250	12,250	12,179
<u>EXPENDITURES</u>									
Legislative									
Village Council	13,300	13,300	11,650	0	0	0	0	0	0
General Government									
Village President	900	900	860	0	0	0	0	0	0
Assessor	800	800	732	0	0	0	0	0	0
Clerk	6,100	6,100	5,368	0	0	0	0	0	0
Treasurer	3,250	3,250	2,913	0	0	0	0	0	0
Building and Grounds	15,800	15,800	15,133	0	0	0	0	0	0
Community and Economic Development									
Planning and Zoning	600	600	491	0	0	0	0	0	0
Public Works									
Public Works	6,375	6,375	11,562	0	0	0	0	0	0
Streets	0	0	0	120,365	120,365	112,967	1,156	1,156	17,330
Recreation and Culture									
Parks and Recreation	2,900	2,900	2,854	0	0	0	0	0	0
Other Functions	7,000	7,000	6,922	0	0	0	0	0	0
Total Expenditures	57,025	57,025	58,485	120,365	120,365	112,967	1,156	1,156	17,330
Net Change in Fund Balance	(22,755)	(22,755)	8,164	(85,665)	(85,665)	(73,056)	11,094	11,094	(5,151)
<u>FUND BALANCE</u> - Beginning of Year	78,844	78,844	78,844	113,396	113,396	113,396	94,727	94,727	94,727
<u>FUND BALANCE</u> - End of Year	\$ 56,089	\$ 56,089	\$ 87,008	\$ 27,731	\$ 27,731	\$ 40,340	\$ 105,821	\$ 105,821	\$ 89,576

VILLAGE OF LEROY, MICHIGAN

SCHEDULE OF 2005 TAX ROLL

DECEMBER 31, 2005

	TAXABLE VALUATION	MILLAGE RATE	LEVY	COLLECTIONS	RETURNED DELINQUENT
<u>REGULAR TAX ROLL</u>					
Real	\$ 3,578,779	5.3254	\$19,058	\$ 16,572	\$ 2,486
Personal	424,110	5.3254	2,259	2,228	31
<u>INDUSTRIAL FACILITIES TAX ROLL</u>					
Real	68,760	2.6627	183	183	0
			<u>\$21,500</u>	<u>\$ 18,983</u>	<u>\$ 2,517</u>

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

June 14, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Village Council  
Village of LeRoy  
LeRoy, Michigan

During the course of our audit of the basic financial statements of the Village of LeRoy for the year ended December 31, 2005, we noted the following list of items which we feel deserve comment:

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for governmental financial statements. For the Village these changes were implemented in the December 31, 2005 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that reports financial information on a government wide basis and incorporates capital assets, and a provision for depreciation on those assets.

We commend the Village for their diligent efforts and assistance necessary to implement these rather radical changes as required by this new reporting pronouncement.

Recordkeeping

We recommend the clerk maintain a file of paid invoices organized by month paid. By doing this, it will be easier to look back for supporting documentation if needed.

### Street Fund Equipment Rent and Wages

The Village records for hours worked by employees, and hours of use of general fund equipment, need to be maintained to support reimbursements by the Street Funds. Records should be designed to produce monthly reimbursements, kept in a secure location, contain complete information, and be readily available for audit use as well as review by the Michigan Department of Transportation (MDOT). The use of MDOT Schedule C Report 375 needs to be used to compute the monthly equipment rental reimbursement amounts.

### Capital Asset Capitalization Policy

We have provided the Village with a sample capital asset capitalization policy for adopting by the council. Please adopt this or a similar capital asset capitalization policy as soon as possible as required by GASB 34.

### Payment to Support Local Organizations

The State law does not allow governmental entities to donate public funds. The Village should formalize its relationship in a written contract with the organization it hires to maintain ball fields for the use by Village residents. Our understanding is that this has always been a fee for service arrangement, but never in writing, just verbal.

### Use of Village Federal Identification Number

During our audit, the bank confirmation sent to the Village's bank was returned with information including the LeRoy Chamber of Commerce bank account information. We recommend the Village check with the bank to determine if this was reported in error, or if the organization is using the Village's federal identification number. No other organization should be authorized to use the Village I.D. number.

### Budgeting

Expenditures in two funds exceeded appropriations.

The PA 621 states that the budget document that the Village adopts include the following financial information:

- a) The actual results from the prior year
- b) An estimate of the current year results
- c) The proposed budget for the upcoming year
- d) Amounts for contingencies, if appropriate

The amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year, after applying the budgeted receipts and disbursements.

The Village Council is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations if it appears the actual expenditures will be much less than originally appropriated.

The adoption of the budgets for each fund should be clearly noted in the board minutes, as well as any amendments to the budget throughout the year.

#### Telecommunications Right-of-Way State Funding

The Village receives money from the state related to Telecommunications Right-of-Way. The state has specific guidelines on the use of those funds, most allowable uses relate to Road Right-of-Way Expenditures. The state has a letter outlining allowable and unallowable uses of these funds and we can provide you a copy if you desire. At December 31, 2005 the amount reserved was \$4,901.

#### Reportable Condition in Internal Controls

As part of our audit of the Village we considered the internal control structure in order to determine our auditing procedures. We are issuing a separate letter which addresses reportable conditions.

We wish to express our appreciation for the cooperation and courtesy extended to our staff by the Village clerk and treasurer during the course of our audit. In addition, we would like to thank the Village Council for its continued confidence in our firm. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990

JOHN H. BISHOP, C.P.A.

ROBERT V. BEATTIE, C.P.A.

DOUGLAS P. McMULLEN, C.P.A.

JOHN F. TAYLOR, C.P.A.

STEVEN C. ARENDS, C.P.A.

SCOTT A. HUNTER, C.P.A.

JONATHAN E. DAMHOF, C.P.A.

MICHAEL D. COOL, C.P.A.

JACK H. BAIRD, C.P.A.

JERRY L. COTTER, C.P.A.

DALE D. COTTER, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

June 14, 2006

### LETTER OF REPORTABLE CONDITIONS

To the Village Council  
Village of LeRoy  
LeRoy, Michigan

In planning and performing our audit of the basic financial statements of the Village of LeRoy, Michigan for the year ended December 31, 2005 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the conditions described above are material weaknesses.

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*